



Suter-Wallauch-Corbett & Associates

Government Relations

December 11, 2008
Handout Agenda Item 5.0

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TO: Dennis Fay, Executive Director
Alameda County Congestion Management Agency

FR: Suter, Wallauch, Corbett & Associates

RE: Legislative Update

Same as it ever was....: December 1, marked the beginning of the 2009-10 Legislative Session and the start of yet another Special Session on the Budget. The first day is primarily a ceremonial affair of receptions and orientation with the real work not commencing until after the New Year. This year, however, the 29 new Assembly members and 12 freshman Senators were hit with the \$11 billion quagmire facing the state budget.

After the prior Legislature failed to address the budget shortfall before the November 30th deadline, the Governor greeted the new and returning members with a special session declaration pursuant to Proposition 58. Prop 58 allows the Governor to declare a fiscal emergency under which the Legislature is required to address the budget deficit within 45 days. If the Legislature fails to adopt a solution within that time period, the Legislature may not adjourn or take-up any other business until the fiscal emergency is resolved. The Special Session was established on December 1, so the clock is now ticking toward a January 15th deadline.

Halting Development: Yesterday, the Senate and Assembly convened a rare joint session of the houses in an effort to grasp the enormity of the problem together. State Treasurer Bill Lockyer warned, "Without a budget solution, state financing of infrastructure projects will stop."

For bond funded projects, the state borrows from the Pooled Money Investment Fund (PMIF) for start-up funds and cash flow financing for infrastructure projects, while the bonds are being packaged and sold. The state's fiscal situation is so dire that the cashflow is not available to borrow from the PMIF and the budget crisis prevents the state from selling infrastructure bonds. According to Lockyer, the PMIF Board will meet next week to consider ending the practice of providing \$660 million in loans each month.

Eliminating PMIF financing will impact \$345 million in funding for the 4th Bore of Caldecott Tunnel as well as all other projects anticipating Prop 1B bond funds in the coming months. The PMIF Board's action will also affect future allocations of Prop 1B Transit Capital funds and local street and road funds for cities and counties.

IOUs: At the joint session, Controller John Chiang declared that the state will be out of money by March. According to the Controller's office, cash on hand will drop to \$882 million by February, which is far below the preferred cushion of \$2.5 billion, and cash reserves will be negative \$1.9 billion by March. In a letter to the Legislature, Finance Director Mike Genest said the state will be forced to issue registered warrants, which are basically IOUs, in March if the \$11.2 billion current year budget deficit is not addressed.

Time is Money: The Governor's Office warns that if the Legislature fails to address the deficit by mid-January the size of the problem will grow by \$2 billion. This deficit growth is based on the declining window in the current fiscal year, and any delay will require an additional \$2 billion in "solutions" for the fiscal year to balance. However, everyone believes that the current deficit guestimates falls far short of the mark. The new rumor has the deficit over the next two years approaching \$40 billion.

Lawsuits: We expect a lot of them in the coming year. Of note is a suit filed in Sacramento Superior Court last week by the California Redevelopment Assn. and the City of Moreno Valley RDA. It seeks to block implementation of AB 1389, a budget trailer bill that authorizes a one-time raid of \$350 million in RDA funds. The lawsuit seeks to invalidate AB 1389 and prohibit the state from forcing county auditors to divert RDA funds to the ERAF account, citing a violation of Article XVI, Section 16, of the State constitution because (a) RDA funds can only be used to finance specified RDA activities, and (b) diverting RDA funds might unconstitutionally impair bond contracts. This will be an interesting one to watch.

Oral arguments are also expected this month before for the appeal of the California Transit Associations (CTA) lawsuit challenging the diversion of Public Transportation Account funds to non-mass transportation programs, such as yellow schools bus service and regional center transportation costs.

The coming month: A series of budget subcommittee meetings have already been scheduled for the next two weeks. Senator Mark DeSaulnier is the new chairman of the Senate Budget Subcommittee #4, which oversees the transportation budget and local government issues. Senate Sub 4 is scheduled to meet on Thursday of this week. The Assembly Budget Committee will review transportation issues next week. Also, the newly created Senate Budget Subcommittee #5 on Revenues and the Economy is scheduled to meet at the end of this week.

In addition to the infrastructure bond freeze, the primary issue facing the transportation is the Governor's proposal to repeal the State Transit Assistance funding program. STA is the only state source for public transit operating funds.

The Governor's mid-year corrections propose to take the remaining STA funds and to permanently eliminate the STA program. The mid-year proposal supported by the Dem Caucus in November would cut STA in half, reducing funding from \$306 million to \$156 million in the current year, but they would not repeal STA. Regardless of the deal

reached for the current year, the Governor's January budget proposal for the 2009-10 will undoubtedly propose to repeal STA.

Legislation: We expect a lot of the same legislatively next year. Senator Hancock will likely reintroduce the ACCMA's sponsored bill, AB 444, to allow countywide vehicle registration fees. Assemblyman Jared Huffman will reintroduce some variation of AB 2558 (Feuer & Huffman), which would allow local or regional measures to impose a vehicle fee or per gallon fuel fee, which would be used to fund greenhouse gas reduction programs. The Air Resources Board may also sponsor a statewide vehicle related fee bill that would generate revenue for implementing AB 32. Clean-up legislation on SB 375 is also expected. The following are a few measures of interest that have already been introduced.

Bill	Topic	Status	Client-Position
ACR 1 (Blakeslee) I-12/01/2008	Constitutional Convention.	12/02/2008-From printer. (12/01/2008-A PRINT)	
	<p>NOTE: ACR 1 would authorize the Legislature to place on the ballot the question on whether a convention should be formed to revise the California Constitution. The resolution must be approved by a 2/3 vote of each house. This resolution would direct the convention to focus on reforming the following issue areas:</p> <ul style="list-style-type: none"> • Election and campaign reform topics include increasing the number of competitive districts, lengthening term limits, and decreasing the influence of campaign and noncampaign gifts and contributions. • Tax reform issues include establishing a tax system that is reasonably revenue neutral, and include reforms that provide incentives for new business activity • Budget reform issues include revising the legislative and budget calendar, limit other legislative work if a budget is delayed, and establishing automatic payments to certain programs if a budget is delayed. • Also, require new fees or fee increases that exceed the cost of living adjustment and population growth must be approved by a 2/3 vote of the Legislature. <p>ACR 1 also specifies that there shall be 56 delegates to the convention. The state will be split into 4 districts of equal population and each district will elect 14 delegates. Additional details on the election process would be specified in implementing</p>		

	<p>legislation.</p> <p><i>Senator Mark DeSaulnier has introduced a competing Constitutional Convention measure contained in SCR 3.</i></p>		
SB 10 (Leno) I-12/01/2008	Voter-approved local assessment.	12/02/2008-From print. May be acted upon on or after January 1. (12/01/2008-S PRINT)	
	<p>NOTE: SB 10 would authorize a county Board of Supervisors to place on the ballot a measure that would impose an assessment on each vehicle not to exceed 2% of the market value of the vehicle. The bill specifies that the assessment is for general revenue purposes and therefore requires only a majority vote in favor to enact the fee.</p> <p>Senator Leno has proposed similar measures in the past that applied only to San Francisco.</p>		
SCA 1 (Walters) I-12/01/2008	State budget.	12/02/2008-From print. May be acted upon on or after January 1. (12/01/2008-S PRINT)	AC Transit-Watch
	<p>NOTE: SCA 1 would amend the Constitution to allow the budget bill and budget trailer bills to be approved by a majority vote of the Legislature. This measure specifies that the majority vote rule only applies if the general fund appropriation in the proposed budget does not exceed the general fund appropriation of the prior year's budget by 5%.</p> <p><i>Senator Loni Hancock has introduced a competing Constitutional Amendment contained in SCA 5.</i></p>		
SCA 3 (Wyland) I-12/01/2008	Transportation Investment Fund.	12/02/2008-From print. May be acted upon on or after January 1. (12/01/2008-S PRINT)	
	<p>NOTE: SCA 3 would amend the Constitution to remove the ability of the Governor and the Legislature to suspend or reduce</p>		

	the transfer of Proposition 42 revenue. This measure does not address the current practice of diverting Public Transportation Account funds to non-public transit expenses.		
SCA 5 (Hancock) I-12/02/2008	State budget.	12/03/2008-From print. May be acted upon on or after January 2. (12/02/2008-S PRINT)	
	NOTE: SCA 5 would amend the Constitution to lower to voting threshold for enacting a budget and budget trailer bills from 2/3 to a majority vote of the Legislature.		
SCR 3 (DeSaulnier) I-12/01/2008	Constitutional convention.	12/01/2008-Introduced. To Com. on RLS. (12/01/2008-S RLS.)	
	NOTE: Upon a 2/3 vote of the Legislature, SCR 3 would place on the ballot the question of convening a convention to revise the California Constitution. Unlike ACR 1, this resolution does not specify the number of delegates or the number of districts, and it does not specify the issue areas to be addressed at the Constitutional Convention. Additional details are expected.		